

FINANCIAL REPORT
NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS
SEPTEMBER 30, 2005

**NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS
FINANCIAL REPORT
September 30, 2005**

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	i-iii
Basic Financial Statements	
Statement of Net Assets	3
Statement of Revenues, Expenses and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6-11
Other Supplemental Information	
Program Activity-Combining Statement	12-14
List of Programs	15-16
Internal Control and Compliance Reporting	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	17

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Northeast Michigan Council of Governments	County Otsego
Audit Date 9/30/05	Opinion Date 11/1/05	Date Accountant Report Submitted to State: 12/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Hill, Schroderus & Co., LLP			
Street Address 923 Spring Street		City Petoskey	State MI
Accountant Signature <i>Klausie A. Bamberg CPA</i>		ZIP Code 49770	Date 12/21/05



Hill ♦ Schroderus & Co., LLP

Certified Public Accountants & Consultants

November 1, 2005

Independent Auditors' Report

Board of Directors
Northeast Michigan Council of Governments
Gaylord, Michigan

We have audited the accompanying financial statements of the business-type activities of the Northeast Michigan Council of Governments, as of and for the year ended September 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Northeast Michigan Council of Governments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Northeast Michigan Council of Governments as of September 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2005, on our consideration of the Northeast Michigan Council of Governments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Board of Directors
Northeast Michigan Council of Governments

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast Michigan Council of Governments' basic financial statements. The other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hill, Schroeder & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

Management's Discussion and Analysis

Overview of the Basic Financial Statements

Northeast Michigan Council of Governments' basic financial statements include government-wide statements and notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements report information on the Council's business type fund. The government-wide statements are designed to provide readers with a broad overview of the Council's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the Council's assets and liabilities, with the difference reported as net assets. All long-term assets and debt obligations are presented, as applicable.

The Statement of Activities focuses on the current year's revenues and expenses using accounting methods similar to those used by private sector businesses. This statement measures the Council's change in net assets for the year.

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide financial statements.

Other Supplementary Information

A listing of planning projects and programs is provided in the Other Supplementary Information as well as a combining statement of program activity. This information is not required as a part of the basic financial statements.

Government-wide Financial Analysis

The table below summarizes the Council's net assets as of September 30, 2005 and 2004:

	2005	2004
Assets		
Current and other assets	\$ 210,070	\$ 274,688
Capital assets - net of accum dep	5,320	6,650
Total assets	215,390	281,338
Liabilities		
Current liabilities	160,701	274,507
Non-current liabilities	26,471	-
Total liabilities	187,172	274,507
Net Assets		
Investment in capital assets, net of related debt	5,320	6,650
Unrestricted	22,898	181
Total net assets	\$ 28,218	\$ 6,831

Capital assets are used in supporting the Council's planning services. The remaining portion of net assets, unrestricted net assets, may be used at the Council's discretion to meet ongoing obligations.

The results for the Council as a whole are reported in the Statement of Activities, which is summarized below:

	2005	2004
Revenues and Other Support	\$ 1,106,261	\$ 873,280
Expenses	1,084,874	854,153
Change in net assets	21,387	19,127
Net assets-beginning of year	6,831	(12,296)
Net assets-end of year	\$ 28,218	\$ 6,831

As shown above, the current year operating gain was \$21,387. Program revenues are directly related to program expenses. The Council relies on member appropriations each year from local units of government to help offset costs. The Council experienced an increase in net assets for both years primarily due to increased member appropriations.

Capital Assets

At September 30, 2005 the Council had \$51,844 invested in capital assets. The following table summarizes the capital asset activity for the year:

	<u>Oct 1, 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Sept 30, 2005</u>
Assets being depreciated	\$ 51,844	\$ -	\$ -	\$ 51,844
Less accum. depreciation	<u>45,194</u>	<u>1,330</u>	<u>-</u>	<u>46,524</u>
Net capital assets	<u>\$ 6,650</u>	<u>\$ (1,330)</u>	<u>\$ -</u>	<u>\$ 5,320</u>

Debt Outstanding

At the end of the year, the Council had \$64,523 in debt outstanding. Below is the debt activity for the year:

	<u>Sept. 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Sept. 30, 2005</u>
Notes payable	\$ 6,239	\$ 38,125	\$ (9,850)	\$ 34,514
Line of credit	<u>32,000</u>	<u>56,728</u>	<u>(58,719)</u>	<u>30,009</u>
Total debt	<u>\$ 38,239</u>	<u>\$ 94,853</u>	<u>\$ (68,569)</u>	<u>\$ 64,523</u>

Economic Factors

Northeast Michigan Council of Governments is a regional planning "commission" servicing various counties and local units of government in Northeast Michigan. The Council's funding is obtained from member appropriations as well as federal, state and other grants or contracts. Consequently, the Council is affected by economic fluctuations affecting Northeast Michigan as well as state and federal budgetary constraints.

Financial Contact

The Council's financial statements are designed to present users with a general overview of the Council's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Executive Director of Northeast Michigan Council of Governments.

NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS
Statement of Net Assets
September 30, 2005

Assets

Current assets:

Cash	\$ 54,442
Accounts receivable	50
Due from grantors	153,264
Prepaid expenses	2,314
	<hr/>
Total current assets	210,070
	<hr/>

Noncurrent assets:

Fixed assets	51,844
Less: accumulated depreciation	(46,524)
	<hr/>
Total fixed assets (net)	5,320
	<hr/>
Total assets	\$ 215,390
	<hr/> <hr/>

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 99,518
Accrued payroll and taxes withheld	6,132
Notes payable - current portion	8,043
Line of credit	30,009
Due to MESCA and NEMRA	2,249
Due to grantors	2,400
Deferred revenue	12,350
	<hr/>
Total current liabilities	160,701
	<hr/>

Noncurrent liabilities:

Notes payable - long term	26,471
	<hr/>
Total liabilities	187,172
	<hr/>

Net assets:

Invested in capital assets, net of related debt	5,320
Unrestricted	22,898
	<hr/>
Total net assets	28,218
	<hr/>
Total liabilities and net assets	\$ 215,390
	<hr/> <hr/>

NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2005

Operating revenues:	
Federal	\$ 305,504
State	524,924
Local	197,930
In-kind contributions	77,294
Other income	609
	<hr/>
Total operating revenues	1,106,261
<hr/>	
Operating expenses:	
Salaries	241,701
Fringes	59,703
Consultant fees	484,630
Education	32,759
Advertising	180
Supplies	23,710
Postage	113
Telephone	57
Travel	17,310
Printing	6,534
Equipment usage and maintenance	764
Direct equipment and software	1,452
Dues and subscription	6,375
Meeting expense	2,834
Consultant travel	5,981
Legal and accounting services	99
Other:	
Other direct	6,527
Other in-kind	77,294
Depreciation	1,330
Indirect costs	115,521
	<hr/>
Total operating expenses	1,084,874
	<hr/>
Change in net assets	21,387
	<hr/>
Net assets, beginning	6,831
	<hr/>
Net assets, ending	\$ 28,218
	<hr/>

NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS

Statement of Cash Flows Year Ended September 30, 2005

Cash flows from operating activities:	
Receipts from contracts	\$ 1,047,897
Receipts from member appropriations	1,125
Payments to suppliers/independent contractors	(698,943)
Payments to/for employees	(339,712)
Interest payments	(2,839)
Other receipts (payments)	609
	<u>8,137</u>
Net cash provided by operating activities	<u>8,137</u>
Cash flows from noncapital financing activities:	
Proceeds from note/line of credit	94,853
Principal paid on note/line of credit	(68,569)
	<u>26,284</u>
Net cash provided by noncapital financing activities	<u>26,284</u>
Net increase in cash and cash equivalents	34,421
Cash and cash equivalents, beginning	<u>20,021</u>
Cash and cash equivalents, ending	<u><u>\$ 54,442</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 21,387
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,330
Change in assets and liabilities:	
Receivables, net	98,897
Prepaid expense	142
Accounts and other payables	2,922
Accrued expenses	(38,308)
Deferred revenue	(78,233)
	<u>(78,233)</u>
Net cash provided by operating activities	<u><u>\$ 8,137</u></u>

NOTE TO FINANCIAL STATEMENTS – CONTINUED
NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis – for State and Local Governments. In accordance with Statement No. 34, the Council is considered to be a Special Purpose Government due to being established to serve one particular purpose. To conform with the Statement, the Council has included a Management's Discussion and Analysis section.

The financial statements of the Northeast Michigan Council of Governments are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Council's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund in accordance with GASB Statement No. 20.

A. Reporting Entity

The Northeast Michigan Council of Governments (the Council) is a regional planning "commission", as defined by Public Act 281 of 1945 of the State of Michigan, servicing various counties and local units of governments in Northeast Michigan. Through the Council, the units coordinate their efforts to maintain and improve the physical, economic and social well being of the area. The Council has been determined to be a local unit of government for financial purposes.

The Council's funding is obtained from county per capita dues and federal, state and other contracts for specified projects designed to further the Council's goals and objectives. Consequently, the Council's ability to collect the amounts due from the various counties and local units of government is affected by economic fluctuations affecting Northeast Michigan.

The accompanying financial statements have been prepared in accordance with criteria established by Governmental Accounting Standards Board Statement (GASBS) No. 14 (and amended by GASBS No. 39). GASBS 14 states the primary basis for determining whether outside agencies and organizations should be considered component units of the Council and included in the Council's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The Council has no component units.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenses are to be recognized in the financial statements. As a governmental not-for-profit, which previously reported using the AICPA not-for-profit model, the Council is allowed to report as a special purpose government engaged only in business type activities.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Basis of Accounting (continued)

The Council recognizes revenues and expenses on the "accrual basis of accounting". Under this method, revenues are recognized when earned and expenses (including depreciation) are recognized when a liability is created.

C. Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

D. Receivables

The Council provides many services to governmental and quasi-governmental agencies. The Council has contracts to provide payment for these services rendered, along with other performance related objectives achieved, up to a maximum contractual dollar amount.

E. Capital Assets

Capital assets, which include furniture and equipment, are reported in the Statement of Net Assets. Capital assets are defined by the Council as assets that are purchased or acquired with an estimated useful life of two or more years and an initial, individual cost of \$5,000 or more. Such assets are reported at historical cost. Contributed assets are reported at fair market value as of the date donated. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and other equipment	5-15 years
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Equipment purchased with governmental grants, which could, subject to the specific contract terms, revert to the grantor, are expensed to the grant when acquired.

F. Revenues and Other Support

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted or restricted support, depending on the existence and/or nature of any donor restrictions.

Deferred Revenue

Resources from various contracts are recorded as revenue when the related costs are incurred. Donor restricted contributions and contractual advances are deferred and recognized over the periods to which the terms of the restricted contributions are substantially met and the contractual services are provided.

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

NOTE TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Donated Services

Agencies, business firms and others contribute materials and services toward the fulfillment of projects initiated by the Council. To the extent that contributions of materials and services are objectively measurable and represent program or support expenditures which would otherwise be incurred by the Council, they are reflected in both other support and program expenses in the accompanying financial statements.

No volunteer services have been valued in the financial statements in as much as there is no objective basis available to measure the value of such services; however, a number of volunteers have donated substantial amounts of their time to program services.

G. Expenses

Expenses identified as applying to a specific program or supporting service are recorded in the appropriate service area as incurred. Expenses not directly attributable to a program or supporting service are allocated between service areas based on an indirect cost rate.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Income Taxes

The Council is a governmental unit as defined by Public Act 281 of 1945 of the State of Michigan and is therefore exempt from federal income taxation.

NOTE 2: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Council to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Council is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Council's deposits and investment policy are in accordance with statutory authority.

Cash Deposits

The Council places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution. As of September 30, 2005, the Council had no significant concentrations of credit risk from temporary cash investments.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 3: CAPITAL ASSETS

Capital asset activity of the Council's primary government for the current year was as follows:

	Balance Oct. 1, 2004	Additions	Deletions	Balance Sept. 30, 2005
Capital assets being depreciated:				
Equipment	\$ 51,844	\$ -	\$ -	\$ 51,844
Less accumulated depreciation:				
Equipment	(45,194)	(1,330)	-	(46,524)
Governmental activities net capital assets	<u>\$ 6,650</u>	<u>\$ (1,330)</u>	<u>\$ -</u>	<u>\$ 5,320</u>

Total depreciation expense was \$1,330 for the year-ended September 30, 2005.

NOTE 4: DUE FROM GRANTORS

The amount reported as "Due from Grantors" as of September 30, 2005, consists of amounts due from the following:

	2005
Presque Isle County	\$ 6,727
Rogers City	1,530
State of Michigan Department of Environmental Quality	30,616
U. S. Department of Agriculture	94
U.S. Department of Commerce	7,065
State of Michigan Office of Community Corrections	60,796
State of Michigan Department of Transportation	38,970
Others	<u>7,466</u>
Total due from grantors	<u>\$ 153,264</u>

NOTE 5: LEASES

Northeast Michigan Council of Governments leases an office building in Gaylord, Michigan on a month-to-month basis, under an operating lease that expired November 30, 2003. Amounts charged to expense under the operating lease totaled \$18,000 for the year ended September 30, 2005.

In July 2005, the Council began leasing office space in Alpena, Michigan on a month-to-month basis for \$350 per month. Amounts charged to expense under this arrangement totaled \$1,050 for the year ended September 30, 2005.

NOTE TO FINANCIAL STATEMENTS – CONTINUED

NOTE 6: DEFERRED COMPENSATION PLAN

The Council offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all Council employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

NOTE 7: DEFINED CONTRIBUTION PLAN

The Council provides pension benefits for full-time employees, as designated by Council, through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Council's contributions for each employee (and interest allocated to each employee's account) are fully vested immediately.

The Council's total payroll in fiscal year 2005 was \$241,701. As permitted, Council elected not to contribute to the plan for fiscal year 2005 due to financial constraints.

NOTE 8: LONG-TERM DEBT

The following is a summary of the Council's long-term debt transactions for the year ended September 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within 1 year
Notes payable:	<u>\$ 6,239</u>	<u>\$ 38,125</u>	<u>\$ 9,850</u>	<u>\$ 34,514</u>	<u>\$ 8,043</u>

Payments for this note are due in monthly installments of \$928. The note bears interest at a rate of 7.75%.

The annual requirements to amortize the debt obligation are as follows:

Year-ending Sept. 30	Principal	Interest
2006	\$ 8,043	\$ 2,165
2007	9,439	1,697
2008	10,186	950
2009	<u>6,846</u>	<u>189</u>
Total	<u>\$ 34,514</u>	<u>\$ 5,001</u>

NOTE 9: LINE OF CREDIT

The Council has available a revolving line of credit with a bank for \$50,000. The line of credit is renewed on an annual basis. Borrowings under the line of credit bear interest at the bank's prime rate plus 1%. All borrowings are collateralized by substantially all assets of the Council. Outstanding liability on the line of credit was \$30,009 at September 30, 2005.

NOTE TO FINANCIAL STATEMENTS – CONTINUED

NOTE 10: DEFERRED REVENUE

The amount reported as "Deferred Revenue" as of September 30, 2005, consists of amounts deferred from the following funding sources:

	<u>2005</u>
U.S. Department of Commerce (EDA) #06-83-05001	\$ 10,589
Michigan Dept. of Environmental Quality #2002-0234	11
Member appropriations	<u>1,750</u>
	<u>\$ 12,350</u>

NOTE 11: INDIRECT COSTS

Indirect costs which support all projects are allocated based on the ratio of the individual project's salaries and fringe benefits to total projects salaries and fringe benefits. The following are the total indirect costs allocated to projects, including agency administration:

	<u>2005</u>
Supplies & printing	\$ 5,797
Postage	3,259
Legal and accounting	54,966
Staff travel	5,263
Telephone	4,912
Rent	16,620
Equipment usage and maintenance	9,987
Dues, subscription and education	2,514
Interest and service charges	3,862
Computers/software and support	7,187
Insurance	943
Other	<u>211</u>
	<u>\$ 115,521</u>

NOTE 12: CONTINGENCIES

Certain funded contractual programs are subject to audit by the grantors. Upon audit, some expenditures may be disallowed and as a result, those amounts may be refundable. Such refunds if any are generally payable from the Council's unrestricted fund balance. The Council feels that any potential disallowances are immaterial.

NOTE 13: RISK MANAGEMENT

The Council is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Council carries commercial insurance for risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded coverage in any of the past three years.

OTHER SUPPLEMENTAL INFORMATION

NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS

Program Activity

Combining Statement

For the Year Ended September 30, 2005

	EDA Grant (1)	EDA Grant (2)	Huron Pines Comm Act (3)	EDA Grant (4)
Operating revenues:				
Federal	\$ 52,302	\$ 36,349	\$ -	\$ 59,052
State	-	-	-	-
Local	-	-	25,164	2,041
Contributions:				
In-Kind	-	5,000	-	25,954
Other	-	-	-	-
	<u>52,302</u>	<u>41,349</u>	<u>25,164</u>	<u>87,047</u>
Total operating revenues				
	<u>52,302</u>	<u>41,349</u>	<u>25,164</u>	<u>87,047</u>
Operating expenses:				
Salaries	24,490	18,167	14,064	6,427
Fringes	6,054	4,727	3,476	1,664
Consultant fees	5,783	1,303	367	47,052
Education	-	-	-	-
Advertising	-	-	-	-
Supplies	49	58	10	-
Postage	24	-	-	-
Telephone	57	-	-	-
Travel	2,356	1,278	711	820
Printing	-	-	220	908
Equipment usage and maintenance	-	-	-	-
Direct equipment and software	-	-	-	-
Dues and subscription	1,406	2,078	-	709
Meeting expense	305	295	17	65
Consultant travel	92	12	66	-
Legal and accounting services	-	-	-	44
Other:				
Other direct	-	-	-	260
Other in-kind	-	5,000	-	25,954
Depreciation	-	-	-	-
Indirect costs	11,686	8,794	6,711	3,150
	<u>52,302</u>	<u>41,712</u>	<u>25,642</u>	<u>87,053</u>
Total operating expenses				
	<u>52,302</u>	<u>41,712</u>	<u>25,642</u>	<u>87,053</u>
Operating income	<u>\$ -</u>	<u>\$ (363)</u>	<u>\$ (478)</u>	<u>\$ (6)</u>

EDA Grant (5)	OCC (6)	Sunrise Side CCAB (7)	MDOT (8)	Emmet Co. Transit (9)	U.S. Heritage Route (10)	Thunder Bay II (11)
\$ 7,065	\$ -	\$ -	\$ 23,466	\$ 20,042	\$ 3,853	\$ 8,370
-	262,672	145,712	90,514	4,976	963	-
-	5,190	60	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>7,065</u>	<u>267,862</u>	<u>145,772</u>	<u>113,980</u>	<u>25,018</u>	<u>4,816</u>	<u>8,370</u>
694	15,589	11,143	53,916	13,653	2,333	4,447
172	3,854	2,755	13,328	3,375	577	1,082
5,771	203,458	103,537	10,795	500	613	-
-	20,945	11,814	-	-	-	-
-	-	-	94	-	-	-
-	8,845	8,684	3,742	273	-	111
-	-	-	74	-	-	-
-	-	-	-	-	-	-
97	529	1,074	3,632	481	180	-
-	-	-	990	32	-	3,596
-	-	-	-	-	-	-
-	1,452	-	-	-	-	-
-	-	-	1,893	224	-	-
-	496	186	917	-	-	-
-	3,628	2,031	-	-	-	-
-	-	-	-	-	-	-
-	2,101	725	65	-	-	55
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>331</u>	<u>7,439</u>	<u>5,317</u>	<u>25,728</u>	<u>6,515</u>	<u>1,113</u>	<u>1,106</u>
<u>7,065</u>	<u>268,336</u>	<u>147,266</u>	<u>115,174</u>	<u>25,053</u>	<u>4,816</u>	<u>10,397</u>
<u>\$ -</u>	<u>\$ (474)</u>	<u>\$ (1,494)</u>	<u>\$ (1,194)</u>	<u>\$ (35)</u>	<u>\$ -</u>	<u>\$ (2,027)</u>

NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS

Program Activity

Combining Statement - (Continued)

For the Year Ended September 30, 2005

	DEQ Thunder Bay (12)	Ocqueoc River (13)	Cheboygan/ Black (14)	Misery Bay (15)
Operating revenues:				
Federal	\$ -	\$ -	\$ 65,455	\$ 7,536
State	20,087	-	-	-
Local	-	8,250	-	-
Contributions:				
In-Kind	340	-	2,281	-
Other	-	-	-	-
Total operating revenues	<u>20,427</u>	<u>8,250</u>	<u>67,736</u>	<u>7,536</u>
Operating expenses:				
Salaries	9,517	4,068	18,041	3,703
Fringes	2,353	1,006	4,460	942
Consultant fees	5,350	-	37,174	-
Education	-	-	-	-
Advertising	-	-	-	-
Supplies	-	-	-	289
Postage	-	-	-	5
Telephone	-	-	-	-
Travel	493	236	880	200
Printing	-	-	360	428
Equipment usage and maintance	-	-	-	-
Direct equipment and software	-	-	-	-
Dues and subscription	-	-	-	-
Meeting expense	-	-	-	-
Consultant travel	-	-	-	-
Legal and accounting services	-	-	-	-
Other:				
Other direct	-	-	39	200
Other in-kind	340	-	2,281	-
Depreciation	-	-	-	-
Indirect costs	<u>2,374</u>	<u>1,941</u>	<u>4,500</u>	<u>1,823</u>
Total operating expenses	<u>20,427</u>	<u>7,251</u>	<u>67,735</u>	<u>7,590</u>
Operating income	<u>\$ -</u>	<u>\$ 999</u>	<u>\$ 1</u>	<u>\$ (54)</u>

Rogers City Wellhead (16)	Grand Lake Coastal (17)	USDA Cattle (18)	Hazard Mitigation (19)	Alcona County (20)	Other (21)
\$ -	\$ 3,565	\$ 18,449	\$ -	\$ -	\$ -
-	-	-	-	-	-
3,723	-	-	39,937	20,064	41,159
-	-	19,470	3,375	-	-
-	-	-	-	-	-
<u>3,723</u>	<u>3,565</u>	<u>37,919</u>	<u>43,312</u>	<u>20,064</u>	<u>41,159</u>
1,797	1,818	412	11,906	1,259	17,009
444	449	102	2,943	311	4,220
-	-	17,739	17,643	17,658	9,887
-	-	-	-	-	-
-	-	-	-	-	-
46	38	-	283	20	609
-	-	-	-	-	10
-	-	-	-	-	-
579	338	-	552	215	1,881
-	-	-	-	-	-
-	-	-	684	-	-
-	-	-	-	-	-
-	-	-	-	-	25
-	-	-	-	-	91
-	-	-	152	-	-
-	55	-	-	-	-
-	-	-	-	-	504
-	-	19,470	3,375	-	-
-	-	-	-	-	-
<u>857</u>	<u>867</u>	<u>196</u>	<u>5,681</u>	<u>601</u>	<u>8,132</u>
<u>3,723</u>	<u>3,565</u>	<u>37,919</u>	<u>43,219</u>	<u>20,064</u>	<u>42,368</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93</u>	<u>\$ -</u>	<u>\$ (1,209)</u>

NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS

Program Activity

Combining Statement - (Continued)

For the Year Ended September 30, 2005

	Individual Program Subtotal	General Program Operations	Total Program Activity
Operating revenues:			
Federal	\$ 305,504	\$ -	\$ 305,504
State	524,924	-	524,924
Local	145,588	52,342	197,930
Contributions:			
In-Kind	56,420	20,874	77,294
Other	-	609	609
	<u>1,032,436</u>	<u>73,825</u>	<u>1,106,261</u>
Total operating revenues			
Operating expenses:			
Salaries	234,453	7,248	241,701
Fringes	58,294	1,409	59,703
Consultant fees	484,630	-	484,630
Education	32,759	-	32,759
Advertising	94	86	180
Supplies	23,057	653	23,710
Postage	113	-	113
Telephone	57	-	57
Travel	16,532	778	17,310
Printing	6,534	-	6,534
Equipment usage and maintance	684	80	764
Direct equipment and software	1,452	-	1,452
Dues and subscription	6,335	40	6,375
Meeting expense	2,372	462	2,834
Consultant travel	5,981	-	5,981
Legal and accounting services	99	-	99
Other:			
Other direct	3,949	2,578	6,527
Other in-kind	56,420	20,874	77,294
Depreciation	-	1,330	1,330
Indirect costs	104,862	10,659	115,521
	<u>1,038,677</u>	<u>46,197</u>	<u>1,084,874</u>
Total operating expenses			
Operating income	<u><u>\$ (6,241)</u></u>	<u><u>\$ 27,628</u></u>	<u><u>\$ 21,387</u></u>

NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS

List of Programs

Program

Funding Source

Program Period

Economic Development Projects

(1) District Continuation Planning Grant 06-83-05001	U.S. Dept. of Commerce Economic Development Administration	04/01/05-03/31/06
(2) District Continuation Planning Grant 06-83-04910	U.S. Dept. of Commerce Economic Development Administration	04/01/04-03/31/05
(3) Community Action Plan	Huron Pines	03/01/04-10/31/05
(4) EDA Planning Assistance Grant 06-86-04916	U.S. Dept. of Commerce Economic Development Administration	07/01/04-06/30/05
(5) EDA Planning Assistance Grant 06-86-05051	U.S. Dept. of Commerce Economic Development Administration	08/01/05-07/31/06

Corrections Projects

(6) Comprehensive Corrections Plan	State of Michigan Dept. of Corrections	10/01/04-09/30/05
(7) Comprehensive Corrections Plan	State of Michigan Dept. of Corrections	12/01/04-09/30/05

Transportation Projects

(8) FY 2005 Regional Transportation Planning Work	State of Michigan Dept. of Transportation	10/01/04-09/30/05
(9) Emmet County Transportation Plan 2003-0328	State of Michigan Dept. of Transportation	04/14/03-09/30/05
(10) U-23 Heritage Route Administration 2003-0017/214	State of Michigan Dept. of Transportation	06/07/05-09/30/05

Watershed Projects

(11) Thunder Bay Watershed Initiative 2002-0006	State of Michigan Dept. of Environmental Quality	11/01/02-10/31/04
(12) Thunder Bay Watershed Initiative 2002-0234	State of Michigan Dept. of Environmental Quality	07/31/04-06/30/07
(13) Ocqueoc River Watershed Transition/Implementation Project 2003-0046	Huron Pines	08/01/04-09/30/05
(14) Cheboygan River/Lower Black River Transition/Implementation 2003-0040	State of Michigan Dept. of Environmental Quality	08/15/04-01/31/06

NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS

List of Programs (Continued)

<u>Program</u>	<u>Funding Source</u>	<u>Program Period</u>
<u>Environmental Projects</u>		
(15) Misery Bay Great Lakes Program GL-97512201-1	U.S. Environmental Protection Agency	09/16/02-01/31/05
(16) Rogers City Wellhead	Rogers City	10/01/04-09/30/05
(17) Grand Lake Coastal Watershed Project 05-6217-09	State of Michigan Dept. of Environmental Quality	01/01/05-03/31/06
<u>Rural Development Projects</u>		
(18) Rural Business Enterprise Grant Beef Cattle from N. E. Lower Michigan	U.S. Dept. of Agriculture	07/01/04-02/28/06
<u>Planning Projects</u>		
(19) Presque Isle County Hazard Mitigation Plan	Presque Isle County Michigan Strategic Fund	10/01/02-09/30/05
(20) Alcona County Mapping	Alcona County	03/31/05-09/30/05
<u>Other Projects</u>		
(21) Various other small projects		



November 1, 2005

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Northeast Michigan Council of Governments
Gaylord, MI

We have audited the financial statements of the business type activities of Northeast Michigan Council of Governments as of and for the year ended September 30, 2005, and have issued our report thereon dated November 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northeast Michigan Council of Governments' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Michigan Council of Governments' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Hill, Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan